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SUBJECT: AFGHANISTAN/PAKISTAN: AUSTR DELANEY RAISES RECONSTRUCTION
OPPORTUNITY ZONES WITH JAPANESE OFFICIALS

11. (SBU) SUMMARY: Senior Government of Japan (GOJ) officials told Assistant U.S. Trade Representative for South Asia (AUSTR) Michael Delaney November 2 that Japan's development assistance strategy in Afghanistan and Pakistan would in principle complement U.S.-proposed Reconstruction Opportunity Zones (ROZ). While GOJ assistance has not focused specifically on trade capacity-building, Foreign Ministry (MOFA) and Japan International Cooperation Agency (JICA) officials noted Japan is investing heavily in related infrastructure and job creation activities in both countries. END SUMMARY.

12. (SBU) In response to AUSTR Delaney's overview of the state of ROZ legislation in the U.S., JICA Director General for South Asia Masataka Nakahara said Afghanistan and Pakistan are high priorities for Japan's overseas development assistance (ODA), and that job creation is fundamental to GOJ strategy in both countries. Nakahara reviewed JICA's framework for assistance to build Pakistan's industrial base, which focuses on three outcomes: (1) more consistent and effective policy implementation; (2) improved governance to create a high-value added market based on fair competition; and (3) strengthening manufacturing capabilities and productivity in specific sectors, including the automotive industry.

13. (SBU) Nakahara noted Japan has dispatched several advisors to provide technical assistance on trade policy and small and medium enterprise management, centered on the Karachi area. Delaney said Pakistan's industrial base is in urgent need of modernization and export diversification, and he encouraged JICA officials to coordinate future assistance efforts to improve the business infrastructure in both countries with the opportunities created by the ROZs. Nakahara also suggested Delaney follow-up with Japan's Embassy in Islamabad.

14. (SBU) Foreign Ministry Deputy Director General for Southwest Asian Affairs Kazuo Sunaga said Japan has reached a "critical moment" as senior policymakers are currently deliberating the future of Japan's assistance to Afghanistan and Pakistan; however, the creation of job opportunities will no doubt remain a "pillar" of Japan's efforts. Sunaga noted the creation of ROZs would be an "interesting input" that would factor into Japan's future decision-making on the scope of its assistance. Sunaga added Japan's aid efforts in Afghanistan center on infrastructure creation (in addition to agriculture, health, and police support), noting that a lack of basic essentials such as water and power hinder further economic growth. However, the unstable security situation, including a recent bombing just 500 meters from Japan's Embassy in Kabul, has complicated these efforts, he observed. Delaney said the security situation in southern Afghanistan where the ROZs are being contemplated appears to be improving, with less Taliban influence. Civil society in that region is in critical need of support, he added. High unemployment, he said, is a major factor fueling the insurgency as the Taliban is frequently the only employer.

15. (SBU) Sunaga said Japan has yet to disburse any of the \$1 billion

pledged at the Tokyo Pakistan Donors Conference in April. Sunaga said the Government of Japan has allocated \$300 million for a World Bank poverty reduction program pending completion of World Bank survey mission. Sunaga thanked AUSTR Delaney for his visit and for sharing what he called "very timely" information on the current and prospective trade development situation in Afghanistan-Pakistan. (Note: \$123 million of Japan's \$1 billion pledge at the April Donor's Conference has been obligated but not yet disbursed. End note.)

16. (SBU) Sunaga also noted the Chinese presence in Pakistan appears to be increasing, citing Chinese renovation of port facilities in Karachi as an example.

17. (U) AUSTR Delaney cleared this message after his departure from Tokyo.

ROOS